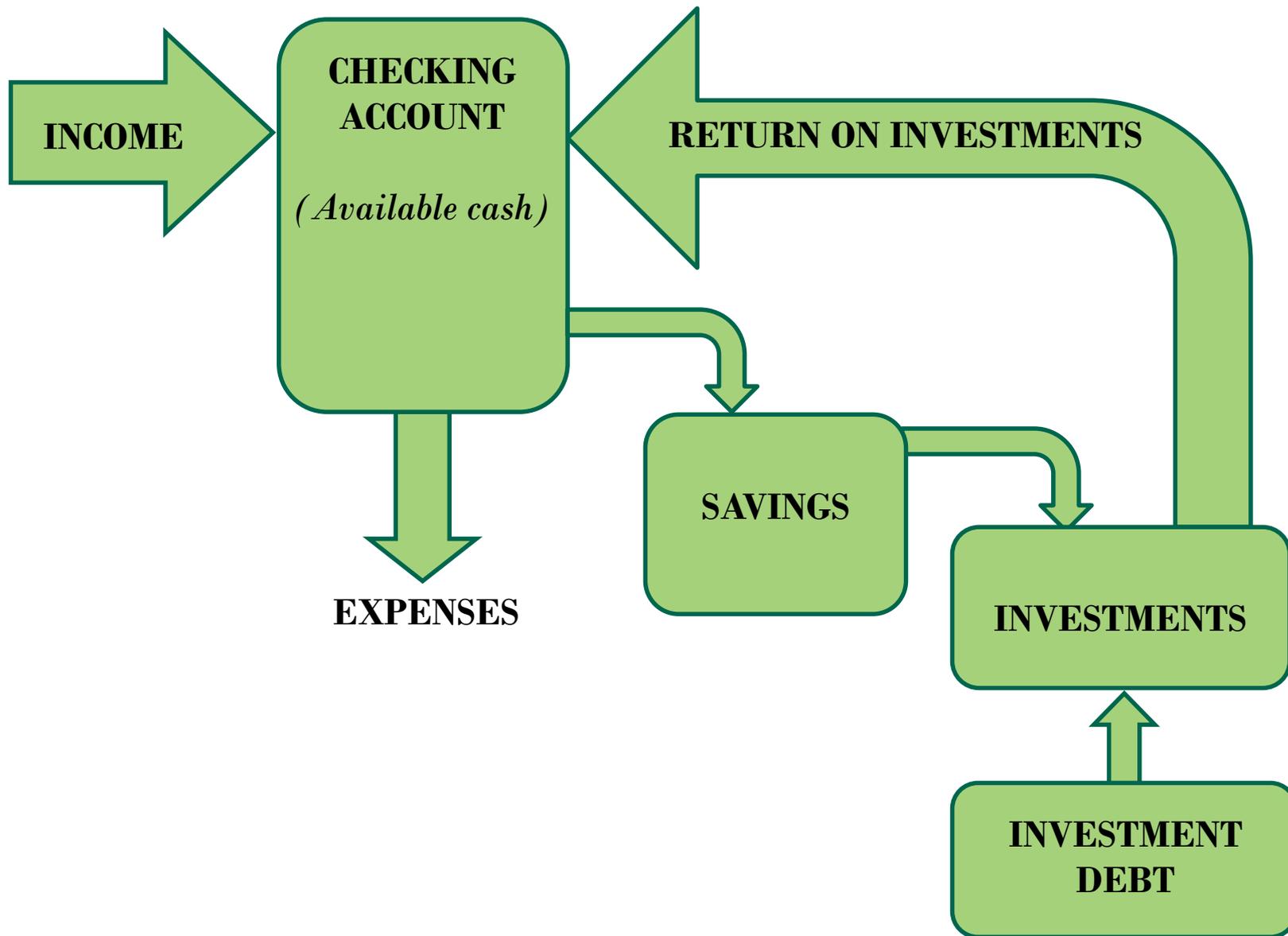


COMMON SENSE CASH OVERFLOW MODEL



COMMON SENSE CASH OVERFLOW MODEL



PURPOSE OF INCOME:

- To cover your living expenses;
- To provide resources for savings and investments;

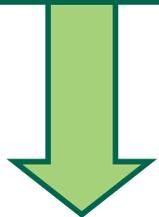
FOCUS AREAS AND PRINCIPLES:

- Generate multiple streams of income because:
 - one source of income makes you vulnerable if that source dries out;
 - income from a single source does not increase enough to compensate for inflation.

COMMON SENSE CASH OVERFLOW MODEL

**CHECKING
ACCOUNT**

(Available cash)



EXPENSES

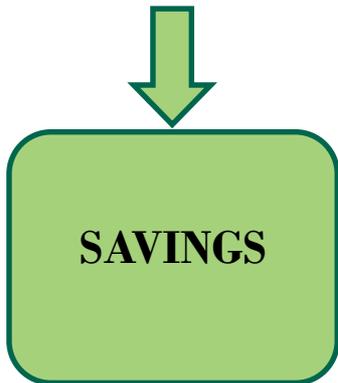
PURPOSE OF EXPENSES:

- To support your lifestyle.

FOCUS AREAS AND PRINCIPLES:

- EXPENSES have to be lower than INCOME, otherwise the “Available Cash Tank” goes empty (aka “live within your means”);
- Be frugal (look for good quality at a reasonable price), don’t be a cheapskate;
- Don't waste money on bad habits or junk;
- Avoid impulse and convenience shopping (until you can really afford it);
- Be aware of the accumulated value of “small payments every day”;
- Be aware that being poor is always more costly.

COMMON SENSE CASH OVERFLOW MODEL



PURPOSE OF SAVINGS:

- Protection – to provide a cash buffer for a limited period of time, in case of unexpected, undesirable events (sickness, injury, job loss, etc.)

FOCUS AREAS AND PRINCIPLES:

- A savings portfolio is focused on SAFETY and PRESERVING VALUE, not RETURN;
- In case of an unexpected event, we need to be able to focus on removing the consequences of that event asap, not worrying about lack of money;
- Due to inflation, saving large amounts of money (beyond a reasonable level, necessary for protection) does not make sense;
- How much to save? Minimum 3 months of life expenses, 12 months preferable, without affecting your life style.

COMMON SENSE CASH OVERFLOW MODEL



INVESTMENTS

PURPOSE OF INVESTMENTS:

- To generate and provide returns in form of cash flow;
- To increase income by reinvesting return of previous investments.

FOCUS AREAS AND PRINCIPLES:

- There is a correlation between risk and return;
- Owning a business (even part time / home based) is one the best ways to invest;
- Other examples of investments: stocks, bonds, real estate, mutual funds.
- Precious metals are not really an “investment vehicle”, but rather a savings vehicle;
- Having a clear understanding of the playing field you want to invest in is crucial for success.
- Limit investment in one area is only limited to what you can afford to lose.

COMMON SENSE CASH OVERFLOW MODEL



**INVESTMENT
DEBT**

PURPOSE OF DEBT:

- To amplify the return on your investments.

FOCUS AREAS AND PRINCIPLES:

- Debt should always be used in connection with investments. This is not bad, because the debt is paid back out of the revenue generated by the investment itself. For a business, interest and principal are paid by the customers. For real estate, debt is paid from the rents paid by tenants.
- Debt should NEVER be used for your own consumption – because you are the one paying the interest and paying back the loan.
- Investment debt amplifies the effect of the investment. If the investment is successful, the return is higher. But if the investment fails, you have to cover all losses – not just your own money, but also the borrowed amount.

COMMON SENSE CASH OVERFLOW MODEL

WHY PERSONAL DEBT IS A BAD IDEA?

- Going into debt means that you commit part of your future income to make payments. Since you make that income by spending TIME working, (regardless of whether you are an employee or a business owner), it means that you commit a part of your future TIME to your lender.
- When you are in personal debt:
 - your future choices are limited because now you can't afford quitting your job or business, even if you wanted to; you need the income to make the payments;
 - you are deprived of future spending on things you like because a significant part of your future income is already committed to paying back loans.
- “Small monthly payments” is a deceiving marketing trap because we focus on the “small” and never take into account how much of that is interest and how much is principal. We end up paying back double or triple of the borrowed amount.
- Interest is the price of “money now”; therefore it can be considered the price of lack of patience.